HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Saskatoon CMA

Canada Mortgage and Housing Corporation

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NEW HOME MARKET

Single starts slip in 2008 but maintain historically high levels

Saskatoon single-detached housing starts will see a slight decline in 2008, slipping to 1,250 starts, 16 per cent less than the 1,485 starts seen in the market of 2007. In 2009, our forecast calls for 1,000 single-detached starts as the market responds to reduced demand, rising inventories, and competition from the resale market. Price escalation from previous years will be a dominant factor leading demand lower. Notwithstanding the expectation of a reduction in starts, this outlook is above the average number of starts seen in the 10 years prior to 2007.

The momentum in single starts which built up in 2007 continued into the first five months of 2008 and is slowly abating in the fall. Investor money has now evaporated. Wide choice on the resale side is

Figure 1

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diverting demand from new construction. Builders are turning to the task of completing and selling the homes presently under construction.

Job growth, wage gains and positive net migration will continue to support new housing and ensure a gradual cooling of the market. In August, year-to-date single starts are close to even with last year at this time but monthly starts have been lower than last year for the past three months.

Bedroom communities attracting home buyers

To the end of August, areas surrounding the city of Saskatoon have captured just over 30 per cent of the total housing starts compared to a 26 per cent share at the end of August 2007. The bulk of these starts have occurred in the town of Warman with 247 starts. Total housing starts in Warman include 111 apartment units. Looking at only single-detached units, Warman again captured the bulk of the starts with a 12 per cent share of the total single housing starts in the CMA. Warman is a popular choice for homebuyers because of its close proximity to employment opportunities offered in the north end of Saskatoon.

Single-detached absorptions are climbing as builders complete units and homebuyers occupy these new homes. To the end August, absorptions of units started in 2007 are up 37 per cent compared to this time in 2007. Average absorptions have topped 100 units monthly compared to an average of 84 units monthly throughout 2007.

At the present rate of absorption, the supply of single units at various stages of construction as well as complete and unoccupied is sufficient to last about 12 months. This is down slightly from the August 2007 figure of 13 months. The combined effect of slower starts and increased absorptions has reduced the total supply on a month over month basis over the last three months.

Average price to reach $380,000 in 2008 and $415,000 in 2009

At the end of 2008, we forecast the average price of a new single-detached home will be $380,000 followed by a nine per cent increase to $415,000 in 2009. Expect price increases to moderate in 2009 as increased competition from resale housing takes hold and construction moderates. Labour costs combined with higher land development costs are the primary contributors to the upswing in average price thus far. In recent months, however, labour shortages have tapered off with the recent decline in single-detached starts. The continued moderation in starts in 2009 will result in a weaker pace of price growth moving forward.

Currently, the year-to-date average price of a new single-detached home is over $350,000, up close to 33 per cent over the average price recorded in the first eight months of 2007. There is a shift upwards into higher price ranges. All price ranges above $250,000 have seen an increase in the number of absorptions while lower price ranges have seen declines. So far, in 2008, the $300,000 to $349,999 range has captured most of the absorptions, reaching 24 per cent of the market. In the $300,000 to $349,999 price range, year-to-date absorptions of 195 units are 150 per cent over last year at this time.

Saskatoon New House Price Index decelerates in 2008 and 2009

Statistics Canada's New House Price Index (NHPI) measures the increase in the price of a house where the detailed specifications pertaining to each house remain the same between two consecutive periods. We expect gains will be more subdued than 2007 as we move forward. Our forecast calls for a 22 per cent increase in the total NHPI in 2008 followed by a modest 1.5 per cent rise in 2009.

According to homebuilders, the 2007 increases were a reaction to the rapid escalation of existing home prices. Demand had shifted from resale housing and builders raised their prices as supply dwindled. These market conditions have now reversed course and our forecast anticipates a reduction in price gains as the market softens. A 22 per cent increase in 2008, with a further slowdown in price gains to 1.5 per cent in 2009, reflects these changes in the market.

Multi starts slow in 2009

Momentum will carry multiple starts (including semi-detached, row, and apartment units) to 1,150 units in 2008 as builders exceed the pace recorded in 2007. A rising inventory will force developers to slow production to 800 units in 2009.

To the end of August, multiple starts are up 45 per cent compared to this time in 2007. Apartments have dominated production in 2008 with 589 units started; more than double the 2007 starts level seen at this time last year. Most of these apartments are condominiums designed for seniors and offer such features as elevators and underground parking. However, new markets have opened for homebuilders involved in row housing condominium development. Due to the rising price of single-detached housing, some first-time homebuyers have turned to the row and semi-detached dwelling style as a more affordable homeownership alternative. Expect row housing to be the second most popular form of new multiple housing, after apartments in 2009.

Supply of multiple units reaches historically high levels

As of August this year, total supplies of multiples were in excess of 1,400 units at various stages of construction or completed and unoccupied. This figure is more than 55 per cent higher than last year at this time.

As multiple starts will remain at an elevated level in 2008, we expect the supply of multiples to remain in the 1,000-unit range throughout this year with an eventual decline in 2009 as starts fall off and units are completed and absorbed. At current rates of absorption, the supply of all types of multiple units is sufficient to last almost 29 months, close to the 28-month supply seen in August 2007.

Most of the multi supply is in the construction stage with apartment style units dominating the mix. The number of apartments under construction is now almost double the number seen at this time in 2007. There are just over 360 row units in the construction stage.

Industry reports abundant supply of land

Saskatoon land developers have reported there are 1,850 lots at various stages of development within city limits and an additional 1,200 lots in communities surrounding the city. According to developer's estimates of land absorption rates, this represents a three-year supply. Given the length of time required to plan and develop raw land, this suggests a balanced market situation. However, shortages may develop for lots in more desirable subdivisions or price ranges.

RESALE MARKET

Resale market sales fall off in 2008 and 2009

Saskatoon resales will decline almost 20 per cent by the end of 2008 with a further 11 per cent reduction occurring in 2009. Notwithstanding 2008's forecast decline, resales will still be in excess of the ten-year average of 3,170 sales.

Saskatoon's resale market is coming off a surge of activity in 2007 that saw sales increase almost 30 per cent over 2006 and resulted in the highest number of resales ever recorded. By the end of August 2008, year-to-date sales were down 18 per cent, while seasonally adjusted monthly sales were down 33 per cent compared to the same month in 2007.

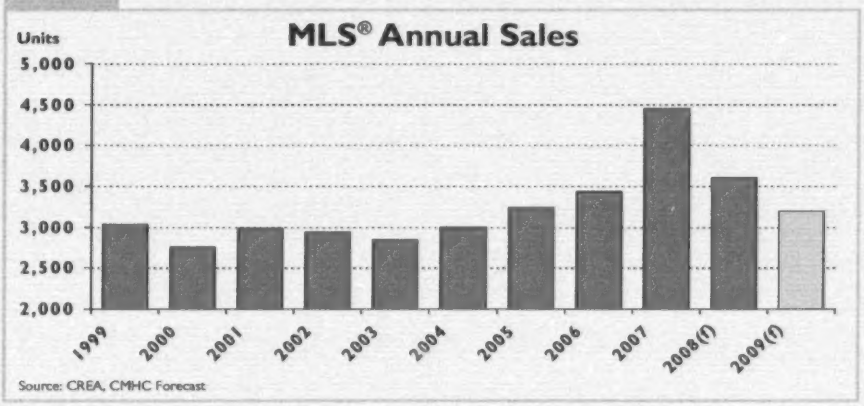
Investor demand played an important role in the 2007 upswing but the bulk of this money is now absent. The industry reports that sellers are holding firm at prices that were common in 2007. Buyers, on the other hand, have adopted a wait and see approach, hoping for a price adjustment following the steep price gains of the last two years. In-migration, rising weekly earnings and other favourable labour market conditions will support demand for resale housing but the sales trend is clearly slowing.

Saskatoon will see 8,500 listings processed in 2008 followed by 7,000 new listings throughout 2009. In August, year-to-date new listings were up 41 per cent compared to last year at that time. New listings are on the rise as seniors move into newly constructed condominiums and others take possession of their new single-detached units. In addition, some investors are now liquidating their holdings in the resale market. Some of these newly listed properties are recently completed new homes. Thus, builders are finding they are competing against their own product. Faced with this challenge, builders will limit price increases on future building contracts.

The combination of the escalation in new listings and slow sales has led to high active listing inventories. Active listings have more than doubled over the August 2007. Although new listing activity will slow in 2009, we expect active listings will remain elevated moving forward.

A further result of record listings and slow sales is a decline in the sales-to-active listing ratio to 8.3 per cent. The seasonally adjusted trend is down more than 30 percentage points on a year-over-year basis and down close to three percentage points on a month-over-month basis. These low ratios mean that relatively few buyers face a large number of homes available for purchase. The result is a market that favours the homebuyer.

Figure 2



Average resale price to increase 23 per cent in 2008 and 1.9 per cent in 2009

Our forecast calls for average price to reach $287,000 in 2008 and approach the $300,000 mark in 2009 as price gains cool from the 2007 pace. Higher listings and buyer resistance to higher prices will result in the relatively weaker price gains compared with 2007 for the balance of 2008 and 2009. The forecasted increase of 23 per cent in 2008 will be modest by comparison with the 45 per cent jump in 2007 but will still be one of the highest gains on record.

At the end of August, year-to-date average price is still on the rise with a year-to-date increase of 27 per cent. Seasonally adjusted average price is up 15 per cent compared to the August 2007 figure but down slightly from the July 2008 seasonally adjusted average price.

RENTAL MARKET

Vacant apartments scarce in 2008 and 2009

After falling to a low of 0.6 per cent in 2007, CMHC is forecasting an increase in the average vacancy rate in 2008 to two per cent followed by two per cent in October 2009. The average vacancy rate will vary widely across the city but all areas will see a tight rental market.

The April rental market survey found there was an average vacancy rate of less than one per cent in the Saskatoon Census Metropolitan Area.

Our forecast of two per cent average vacancy in October 2008 assumes there will be a decline in demand due to tenants moving to home ownership, lower in-migration and tenant households "doubling-up" in the face of mounting rents. In 2009, these conditions will persist, resulting in two per cent average vacancy rate in that year also.

Rents continue to rise in 2008 and 2009

Strong rental demand has given property owners and managers an opportunity to maximize rental income. Following an $85 increase to the monthly two-bedroom rent in 2007, our forecast calls for an increase of $167 in the two-bedroom monthly average rent in 2008 and a modest increase of $15 in 2009 bringing the average rent for a two-bedroom suite to $860 by October 2008 and $875 in October 2009. The re-introduction of renovated suites will contribute to the rental hikes. We expect the increase in average rent to slow in 2009 as household income begins to limit further rent hikes.

Both the City of Saskatoon and the Province of Saskatchewan have programs in place to encourage the building of market rental and affordable rental housing.

ECONOMIC OUTLOOK

Employment growth restricted by scarcity of workers

CMHC is forecasting employment gains of 2,300 jobs in 2008 followed by 1,800 in 2009. These increases are considerably more subdued than the surge in employment seen in 2007, which saw 7,500 jobs created. The escalation in housing prices relative to other western cities will slow in-migration and restrict labour force gains thus limiting employment growth. Unemployment will see a slight increase in 2008, yet remain low by historical and national standards. Expect the unemployment rate to slip back to four per cent in 2009.

At the end of August, Saskatoon's goods sector has dominated employment growth. Mining as well as oil and gas extraction have done the heavy lifting. Manufacturing and construction have also contributed. Service sector employment has fallen off compared to the hectic pace of hiring seen in 2007. Retail trade and education employment numbers have been slipping since the beginning of 2008.

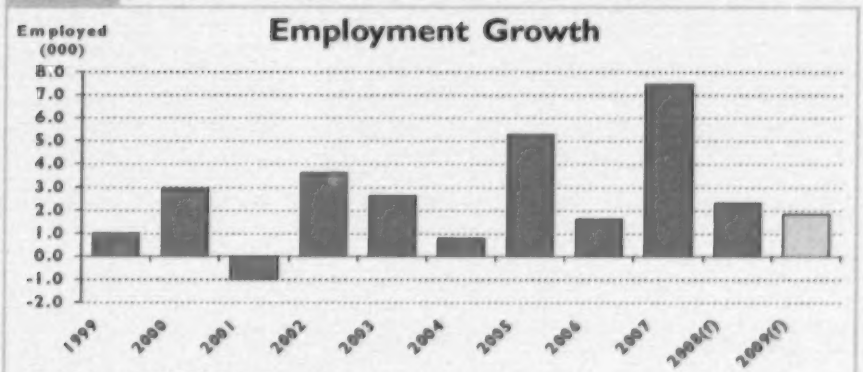
Full-time employment has seen an increase so far in 2008 while part-time employment has been sliding. Both younger and older age groups have benefitted from employment gains so far in 2008. There are early indications that the youngest age group may be seeing declines later in the year as this is the group most commonly associated with part-time work and the service sector.

Building permits show residential construction cooling

The July year-to-date dollar volume of all types of building permits has seen a 51 per cent increase in 2008 compared to this time in 2007. The largest increases have occurred in the industrial sector followed by growth in the commercial sector. The institutional and governmental permit volume saw the third highest increase.

Although residential permits dollars have seen an increase of close to 13 per cent this year, the gains are far behind the 133 per cent increase recorded at this time in 2007. Considering the unit count of building permits issued to July, there has been a 5.8 per cent decline in total residential permits issued so far in 2008. Single-detached permits are up 2.2 per cent but multiple unit permits are down 1.3 per cent. Conversion permits are also down.

Figure 3



Source: Statistics Canada, CMHC Forecast

Net migration to remain positive in 2008 and 2009

After an impressive rebound, net in-migration will moderate somewhat in 2008, following the forecast for the province as a whole. Net migration will remain positive in 2008 and 2009 after reaching an estimated high of 5,000 persons in 2007. A strong economy and continued employment prospects will continue to draw migrants into Saskatoon. However, the escalation in housing costs will also serve as a deterrent for some, hence the moderation from the 2007 high.

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

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Forecast Summary Saskatoon CMA Fall 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	3,246	3,430	4,446	3,600	-19.0	3,200	-11.1
MLS® New Listings	4,908	4,637	5,816	8,500	46.1	7,000	-17.6
MLS® Average Price ($)	144,787	160,577	232,754	287,000	23.3	292,500	1.9
New Home Market							
Starts:							
Single-Detached	751	959	1,485	1,250	-15.8	1,000	-20.0
Multiples	311	537	895	1,150	28.5	800	-30.4
Starts - Total	1,062	1,496	2,380	2,400	0.8	1,800	-25.0
Average Price ($):							
Single-Detached	213,464	239,365	272,802	380,000	39.3	415,000	9.2
Median Price ($):							
Single-Detached	198,177	219,687	256,568	362,000	41.1	370,500	2.3
New Housing Price Index (% chg.)	5.6	9.1	38.8	22.0	-	1.5	-
Rental Market							
October Vacancy Rate (%)	4.6	3.2	0.6	2.0	-	2.0	-
Two-bedroom Average Rent (October) ($)	584	608	693	860	-	875	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-	6.31	-
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-	6.92	-
Annual Employment Level	126,400	128,000	135,500	137,800	1.7	139,600	1.3
Employment Growth (%)	4.4	1.3	5.9	1.7	-	1.3	-
Unemployment rate (%)	5.0	4.4	4.0	4.2	-	4.0	-
Net Migration [1]	970	3,721	5,000	4,500	-	3,000	

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is estimated

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